

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input checked="" type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Unit Name Eaton County Road Commission		County Eaton	
Fiscal Year End September 30, 2007		Opinion Date December 21, 2007		Date Audit Report Submitted to State March 20, 2008			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES ☒ NO ☐

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☒ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe) Report on Internal Control	<input checked="" type="checkbox"/>			
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC		Telephone Number (810) 984-3829		
Street Address 1979 Holland Avenue		City Port Huron	State MI	Zip 48060
Authorizing CPA Signature 		Printed Name Larry J. Allen		License Number 1101008117

MANAGEMENT LETTER

To the Board of County Road Commission
of Eaton County
Charlotte, Michigan

We have recently completed our audit of the financial statements of the Eaton County Road Commission as of and for the year ended September 30, 2007. We are required by Statements on Auditing Standards to now report deficiencies in internal control so that the client can assess control risk. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and operational efficiency of the Road Commission's recordkeeping system or compliance with laws and regulations. These suggestions are a result of our evaluation of internal accounting controls and procedures and our discussions with management. As noted in the **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**, dated December 21, 2007, these weaknesses were not considered significant deficiencies in relation to the financial statements of the Eaton County Road Commission.

Controls over Transfer Vouchers

At the present time, transfer vouchers (journal entries) include a description for the entry and are numbered and maintained in a binder for control purposes. However, not all transfer vouchers are required to be formally approved by a second individual.

Not having a procedure requiring that transfer vouchers be formally approved allows for the possibility of inaccurate financial reporting.

We recommend that the transfer vouchers be approved by an individual that is able to analyze the accompanying information supporting the entry. This may be accomplished by having different individuals reviewing transfer vouchers, or at a minimum, any transfers that are not standard entries.

Controls over signature stamp

At the present time the Road Commission has two signature stamps, the signature stamps are kept in the business office in a locked filing cabinet.

Signature stamps are always risky because they allow the signing of checks or documents by someone other than the authorized individual.

We recommend to increase control that the signature stamps be kept separate and secured by someone that does not have any, or at least limited, business office duties that involve the payroll or vendor disbursement.

Inventory of Lower Value Equipment Parts

A formal policy should be adopted for the determination of when a lower value equipment part should be recorded in inventory with perpetual records maintained by individual part.

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

ANNUAL FINANCIAL REPORT
WITH SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED SEPTEMBER 30, 2007

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



At the present time, the Road Commission policy is to charge low value equipment parts directly to an expenditure and not maintain inventory records on these types of parts. However, a specific cut off value has not been formally documented in a policy.

We recommend that this cut off value be documented in a formal policy the level at which equipment parts must be inventoried and perpetual records maintained by individual part.

The parts that are below the formal threshold amount may be charged directly to an expenditure account or placed in inventory, with the inventory account adjusted once a year based on physical count.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the September 30, 2007 financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information and use of the management and the Board of County Road Commissioners of Eaton County Road Commission and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script, appearing to read "Stewart, Beamsant Whipple".

December 21, 2007

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

SEPTEMBER 30, 2007
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INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners
of Eaton County
Charlotte, Michigan

We have audited the accompanying basic financial statements of the Road Commission of Eaton County, Michigan, a component unit of Eaton County, Michigan, as of September 30, 2007, and for the year then ended. These financial statements are the responsibility of the Road Commission management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Eaton County, Michigan, as of September 30, 2007, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 21, 2007, on our consideration of the Road Commission of Eaton County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Eaton County Road Commission. The schedules on pages 25-27 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Road Commission of Eaton County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants

December 21, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Eaton County Road Commission, we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended September 30, 2007. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide an understanding of the Eaton County Road Commission's basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) governmental fund financial statements, and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Eaton County Road Commission's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Eaton County Road Commission's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., unused vacation and sick).

Governmental Fund Financial Statements

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds financial statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions.

The Eaton County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and governmental fund financial statements.

FINANCIAL HIGHLIGHTS

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$81,155,201 at the end of the fiscal year.

The net assets are separated into three major components, investment in capital assets of \$76,589,922 or 94.4% of net assets, restricted net assets of \$2,270,998 or 2.8%, and finally unrestricted net assets of \$2,294,281 or 2.8%. The investment in capital assets of the Road Commission reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Road Commission used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Road Commission's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted net assets are the net assets that resulted from Primary and Local Road activities that are restricted by the Michigan Department of Transportation to be used on the respective Primary and Local Roads. The remaining balance of unrestricted net assets may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Road Commission is able to report positive balances in all three categories (invested in capital assets net of related debt, restricted net assets and unrestricted net assets).

The following table presents a comparison of net assets at September 30, 2007 and 2006 in a condensed format.

Condensed Statement of Net Assets

	<u>2007</u>	<u>2006</u>	<u>Variance</u>
Assets –			
Current and other unrestricted assets	\$ 5,737,983	\$ 6,316,280	\$(578,297)
Capital Assets	<u>81,796,095</u>	<u>78,563,549</u>	<u>3,232,546</u>
Total Assets	<u>\$ 87,534,078</u>	<u>\$ 84,879,829</u>	<u>\$ 2,654,249</u>
Liabilities –			
Long-term liabilities outstanding	\$ 5,820,327	\$ 6,292,322	\$(471,995)
Other liabilities	<u>558,550</u>	<u>2,320,482</u>	<u>(1,761,932)</u>
Total Liabilities	<u>\$ 6,378,877</u>	<u>\$ 8,612,804</u>	<u>\$(2,233,927)</u>
Net Assets –			
Invested in capital assets, net of related debt	\$ 76,589,922	\$ 72,882,579	\$ 3,707,343
Restricted	2,270,998	1,424,057	846,941
Unrestricted	<u>2,294,281</u>	<u>1,960,389</u>	<u>333,892</u>
Total Net Assets	<u>\$ 81,155,201</u>	<u>\$ 76,267,025</u>	<u>\$ 4,888,176</u>

The following table presents a comparison of the change in net assets for the years ended September 30, 2007 and 2006 in a condensed format.

	<u>2007</u>	<u>2006</u>	<u>Variance</u>
Condensed Statement of Activities			
Revenues –			
Federal Sources	\$ 876,839	\$ 2,184,779	\$(1,307,940)
State Sources	11,049,099	9,950,006	1,099,093
Local Sources	1,646,477	1,496,107	150,370
Other	<u>678,407</u>	<u>703,708</u>	<u>(25,301)</u>
	<u>\$ 14,250,822</u>	<u>\$ 14,334,600</u>	<u>\$(83,778)</u>
Expenditures –			
Maintenance	\$ 5,158,572	\$ 5,178,548	\$ (19,976)
Administration	643,529	662,366	(18,837)
Equipment	10,458	121,834	(111,376)
Other and Interest	624,450	643,756	(19,306)
Depreciation	<u>5,431,363</u>	<u>5,295,362</u>	<u>136,001</u>
	<u>\$ 11,868,372</u>	<u>\$11,901,866</u>	<u>\$ (33,494)</u>
Change in Net Assets	<u>\$ 2,382,450</u>	<u>\$ 2,432,734</u>	<u>\$ 50,284</u>

Financial Analysis of Governmental Fund Financial Statements

As noted earlier, the focus of the governmental fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Road Commission reported an ending fund balance of \$4,902,667, an increase of \$1,180,872 from the prior year. Approximately 39% or \$1,915,889 of the fund balance constitutes unreserved fund balance, which is available for spending at the Road Commission's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because \$715,780 has been prepaid and \$2,270,998 has been reserved for expenditures related to primary and local roads as required by the Michigan Department of Transportation.

BUDGETARY HIGHLIGHTS

The Road Commission amended its 2006-07 budget to reflect status changes in construction, heavy maintenance and maintenance projects. The final budget was \$257,500 less in revenues, and \$3,950,000 less in expenditures than the original budget primarily for these reasons. The actual 2006-07 revenues were approximately \$295,322 more than the amended budget which is 2.12% over budget. The actual expenditures were \$2,050 less than the amended budget, which was 0.0002% under budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – The Road Commission has \$ 81,796,095 in capital assets at the end of the year. The reason for the increase from the previous year was the capitalization of construction/capacity improvements and preservation-structural maintenance for road and bridge projects funded by federal, state and local revenues. A summary of capital assets net of accumulated depreciation at September 30, 2007 in comparison to the previous year is as follows:

	2007	2006
Land and improvements	\$21,813,795	\$16,217,391
Buildings and improvements	5,354,352	4,707,688
Equipment	634,123	772,355
Infrastructure	<u>53,993,825</u>	<u>56,866,115</u>
	<u>\$81,796,095</u>	<u>\$78,563,549</u>

Additional information on the Road Commission's capital assets activity may be found in Note 7 to the financial statements.

Long-Term Liabilities – At the end of the current year, the Road Commission had total bond debt outstanding of \$5,515,000. The debt is backed by the full faith and credit of Eaton County. The total debt was issued in anticipation of and payable from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and construction and work incidental thereto. A summary of the Motor Transportation Debt is as follows:

	2007	2006
Michigan Transportation Bonds – Series 1998	\$ 390,000	\$ 760,000
Michigan Transportation Bonds – Series 2003	\$ 5,125,000	\$ 5,230,000

Additional information on the Road Commission's long-term liabilities may be found in Note 9 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The majority of the Road Commission's revenue streams continue to decline. Long-term state fiscal crises are affecting local abilities to provide increased levels of maintenance. Long-term crises are also affecting cost sharing programs currently in effect with township transportation partners. Potential legislative relief in terms of a tax increase seems unlikely due to the economical conditions at the State level, which could help to improve resource allocations to maintenance and improvement efforts.

Our 2007-08 budget is programmed for revenues, which are decreased in most areas except for increased funding for road reconstruction through federal funding. Expenditures will increase in areas of road improvement efforts and surface preservation. Expenditures will exceed revenues during the year with a planned reduction of available operating funds. It is anticipated our fund equity will reduce by at least \$100,000 during 2008.

CONTACTING THE ROAD COMMISSION MANAGEMENT

This financial report is designed to provide a general overview of the Eaton County Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Eaton County Road Commission, 1112 Reynolds Road, Charlotte, Michigan 48813.

BASIC FINANCIAL STATEMENTS

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 2,825,729	\$ -	\$ 2,825,729
Due from other governmental units -			
State	1,321,724	-	1,321,724
Local	241,722	-	241,722
Receivables	45,855	-	45,855
Prepaid expenditures/expenses	715,780	308,827	1,024,607
Inventory	278,346	-	278,346
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	21,813,795	21,813,795
Assets being depreciated	-	59,982,300	59,982,300
Total Assets	<u>\$ 5,429,156</u>	<u>\$ 82,104,922</u>	<u>\$ 87,534,078</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	\$ 156,092	\$ -	\$ 156,092
Contractor's retention payable	209,478	-	209,478
Accrued liabilities	112,664	-	112,664
Deposits and Advances	12,500		12,500
Accrued interest payable	-	32,061	32,061
Deferred Revenue	35,755		35,755
Bonds and notes payable, due within one year	-	495,000	495,000
Bonds and notes payable, due in more than one year	-	5,020,000	5,020,000
Long-term accrued vacation and sick	-	305,327	305,327
Total Liabilities	<u>526,489</u>	<u>5,852,388</u>	<u>6,378,877</u>
Fund Balance:			
Fund Balance -			
Reserved -			
Prepaid expenditures	715,780	(715,780)	-
Primary/Local Roads	2,270,998	(2,270,998)	-
Unreserved -			
Undesignated	1,915,889	(1,915,889)	-
Total Fund Balance	<u>4,902,667</u>	<u>(4,902,667)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 5,429,156</u>		
Net Assets:			
Invested in capital assets, net of related debt		76,589,922	76,589,922
Restricted -			
Primary/Local Roads		2,270,998	2,270,998
Unrestricted		2,294,281	2,294,281
Total Net Assets		<u>\$ 81,155,201</u>	<u>\$ 81,155,201</u>

See Notes to Financial Statements

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE / STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	Governmental Fund	Adjustments (Note 2)	Statement of Activities
Revenues:			
Permits	\$ 67,268	\$ -	\$ 67,268
Intergovernmental -			
Federal sources	876,839	-	876,839
State sources	11,049,099	-	11,049,099
Local sources	1,646,477	-	1,646,477
Interest and rents	172,591	-	172,591
Other	438,548	-	438,548
Total Revenues	<u>14,250,822</u>	<u>-</u>	<u>14,250,822</u>
Expenditures/Expenses:			
Current -			
Primary construction/ capacity improvements	3,030,584	(3,030,584)	-
Local construction/ capacity improvements	225,000	(225,000)	-
Primary preservation- structural maintenance	2,444,262	(2,444,262)	-
Local preservation- structural maintenance	370,701	(370,701)	-
Primary routine and preventive maintenance	2,762,935	(2,060)	2,760,875
Local routine and preventive maintenance	2,399,758	(2,061)	2,397,697
Administrative	666,702	(23,173)	643,529
Equipment	1,685,601	(337,948)	1,347,653
Less equipment rental charged to other activities	(1,337,195)	-	(1,337,195)
Depreciation	-	5,431,363	5,431,363
Other	413,471	-	413,471
Capital Outlay	208,531	(208,531)	-
Less: depreciation credit and retirements	(486,086)	486,086	-
Debt Service -			
Principal	475,000	(475,000)	-
Interest	210,686	293	210,979
Total Expenditures/Expenses	<u>13,069,950</u>	<u>(1,201,578)</u>	<u>11,868,372</u>
Excess of revenues over (under) expenditures/expenses	<u>1,180,872</u>	<u>1,201,578</u>	<u>2,382,450</u>
Fund Balance/Net Assets at October 1, 2006	3,721,795	72,545,230	76,267,025
Prior period adjustment	<u>-</u>	<u>2,505,726</u>	<u>2,505,726</u>
Fund Balance/Net Assets at October 1, 2006 restated	3,721,795	75,050,956	78,772,751
Fund Balance/Net Assets at September 30, 2007	<u>\$ 4,902,667</u>	<u>\$ 76,252,534</u>	<u>\$ 81,155,201</u>

See Notes to Financial Statements

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	Original Budget	Final Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Permits	\$ 100,000	\$ 67,000	\$ 67,268	\$ 268
Intergovernmental -				
Federal sources	2,799,000	876,000	876,839	839
State sources	10,162,000	11,042,000	11,049,099	7,099
Local sources	985,000	1,644,500	1,646,477	1,977
Interest and rents	30,000	172,000	172,591	591
Other	137,000	154,000	438,548	284,548
Total Revenues	<u>14,213,000</u>	<u>13,955,500</u>	<u>14,250,822</u>	<u>295,322</u>
Expenditures:				
Current -				
Primary construction/ capacity improvements	4,999,000	2,970,000	3,030,584	(60,584)
Local construction/ capacity improvements	-	-	225,000	(225,000)
Primary preservation- structural maintenance	5,184,000	2,445,000	2,444,262	738
Local preservation- structural maintenance	-	372,000	370,701	1,299
Primary routine and preventive maintenance	2,812,000	2,763,000	2,762,935	65
Local routine and preventive maintenance	2,056,000	2,401,000	2,399,758	1,242
Administrative	850,000	644,000	666,702	(22,702)
Equipment - net	135,000	372,000	348,406	23,594
Other	475,000	586,000	413,471	172,529
Capital Outlay - net	(175,000)	(167,000)	(277,555)	110,555
Debt Service	686,000	686,000	685,686	314
Total Expenditures	<u>17,022,000</u>	<u>13,072,000</u>	<u>13,069,950</u>	<u>2,050</u>
Excess of revenues over (under) expenditures	(2,809,000)	883,500	1,180,872	297,372
Fund Balance at October 1, 2006	<u>4,697,244</u>	<u>3,720,000</u>	<u>3,721,795</u>	<u>1,795</u>
Fund Balance at September 30, 2007	<u>\$ 1,888,244</u>	<u>\$ 4,603,500</u>	<u>\$ 4,902,667</u>	<u>\$ 299,167</u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Eaton County Road Commission, a component unit of the County of Eaton, Michigan, have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The more significant accounting policies are described as follows:

A. Description of Road Commission Operations –

The Eaton County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Eaton, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal awards and contributions from other local units of government (townships) for work performed by the Road Commission work force. The Road Fund is the only fund of the Road Commission.

The Road Commission which is established pursuant to the County Road Law (MCL224.1) operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides services to sixteen (16) Townships in Eaton County and maintains over 1,152 miles of local and primary roads.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The government-wide financial statement columns (i.e., statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

C. Assets, Liabilities, and Fund Balance or Net Assets –

Cash and Cash Equivalents - Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase. Cash equivalents include investment trust funds which are recorded at cost which approximates fair value. The pooled investment funds have the general characteristics of demand deposit accounts in that the Road Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Inventories – Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at the lower of average cost or market.

Prepaid Items – Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets with an initial, individual cost of \$2,000 or more and an estimated useful life in excess of one year. Road equipment is capitalized as defined by the Michigan Department of Transportation without consideration of a minimum cost. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other fixed assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	5-8 years
Roads	8-30 years
Bridges	25-50 years
Traffic signals	15 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges, and traffic signals which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource.

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditure accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Deferred Revenues – In both the government-wide and the governmental fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

Accrued Vacation and Sick Pay – In accordance with contracts negotiated with the various employee groups, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contract. All amounts vested are accrued in the government-wide statements (statement of net assets).

Equipment Rentals – The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be allocated to the various activities. The effect of this allocation is offset to equipment expenditures/expenses.

Long-Term Obligations – In the government-wide financial statements (statement of net assets), long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

Estimates – In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

- A.** Explanation of differences between the governmental fund statement and the government-wide statement of net assets (Page 7).

Fund Balance – governmental fund	\$ 4,902,667
Capital assets used in the governmental fund activities that are not financial resources and therefore not reported in the governmental fund financial statements	
Add – capital assets	132,990,472
Deduct – accumulated depreciation	(51,194,377)

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - (cont'd):

Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements	\$ (5,820,327)
Accrued interest payable on long-term liabilities not reported in the governmental fund statements	(32,061)
Prepaid expenses not reported in the governmental fund statements	<u>308,827</u>
Net Assets	<u>\$ 81,155,201</u>

B. Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide Statement of Activities (Page 8).

Excess of revenues over expenditures – governmental fund statement	\$ 1,180,872
The governmental fund statements report capital outlay as expenditures, however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	
Add – capitalized assets and infrastructure	6,279,078
Deduct – retirements	(120,895)
Deduct – depreciation	(5,431,363)
Principal payments on long-term liabilities are reported as an expenditure in the governmental fund statements, but not in the government-wide Statement of Activities (where it reduces the long-term liability)	475,000
Interest expense adjustment for accrual reported in the government-wide Statement of Activities when the liability is incurred and reported in the governmental fund statements only when payment is due	2,966
Prepaid expense adjustment not reported in the governmental fund statements	(203)
Some expenses reported in the government-wide Statement of Activities do not require the use of current financial resources, and therefore are not reported as expenditures in the governmental fund – increase in accrued sick and vacation	<u>(3,005)</u>
Change in Net Assets	<u>\$ 2,382,450</u>

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Auditing and Reporting –

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States as described in the Independent Auditor's Report, but, also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor's Report, but also with applicable rules of the Michigan State Department of Transportation.

Budgetary Compliance –

The Engineer-Manager of the Road Commission prepares from data submitted by the administrative staff a proposed operating budget for the calendar year commencing October 1. The operating budget includes proposed expenditures and resources to finance them.

The budget for the General Operating Fund is adopted on the modified accrual basis which is consistent with accounting principles generally accepted in the United States of America.

Prior to September 30, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioner's Resolution. The budget is approved at the activity level by the Board of County Road Commissioners. Expenditures may not exceed appropriations at the activity level. The engineer manager has been granted the authority by the Board of County Road Commissioners to amend the budget up to 25% of the activity amount. Budgetary control is exercised at the activity level. Individual amendments were material in relation to the original appropriation.

The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. During the year ended September 30, 2007, the Road Commission had three over-expenditures as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS:

As of September 30, 2007, the carrying amount of deposits and investments is as follows:

Cash on Hand	
Petty Cash	\$ 250
Deposits with Financial Institutions	
Imprest Checking	6,500
Investments	
Public Funds Investment Trust	
Maintained by County Treasurer	<u>2,818,979</u>
	<u>\$ 2,825,729</u>

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Eaton County Treasurer's Office, and in order to make disbursements, the Eaton County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. The investing of cash is performed by the County Treasurer.

As a component unit of Eaton County, all Road Commission cash and cash equivalents are a part of the accounts maintained by Eaton County at banking institutions insured by federal depository insurance. However, the Road Commission by State statute has funds allocated to it by the State of Michigan for its exclusive use and control. As a result, funds of the Road Commission have separate insurance coverage.

Custodial Credit Risk – Deposits- is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. Michigan Public Acts authorize Road Commissions to deposit into the accounts of federally insured banks, insured credit unions, and savings and loan associations with an office in Michigan. The Road Commission's investment policy does not have a custodial credit risk requirement.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

The Road Commission's deposits consist of demand accounts. At September 30, 2007, the carrying amount of the Road Commission's deposits is \$6,500, and the bank balance is \$336,648, of which \$100,000 is FDIC insured, and the remaining \$236,648 is exposed to credit risk since it is uninsured and uncollateralized.

The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk. The County uses only those financial institutions with an acceptable estimated risk level as depositories.

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 4 - DEPOSITS AND INVESTMENTS – (cont'd):

Investments – The Road Commission's investment policy allows it to invest in funds authorized by Michigan Public Act 20 of 1994. Michigan Public Act 20 of 1994, as amended, authorizes the Road Commission to invest surplus funds in bonds, securities and other direct obligations of the United States government or an agency or instrumentality of the United States, certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution only if the bank, savings and loan association or credit union is eligible to be a depository of funds belonging to the state, bankers' acceptances of the United States banks, commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, which mature not more than 270 days after the date of purchase; mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation; investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools are organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.118.

The Road Commission's investment policy is silent on risks associated with its investments.

Credit Risk – Investments – As of September 30, 2007, the County, on behalf of the Road Commission, had invested \$2,818,979 in one external investment pool. The fund invests primarily in a portfolio of short-term U.S. Treasury securities. These investments include repurchase agreements collateralized fully by U.S. Treasury securities. It is rated as AAAm by Standards & Poors and Aaa by Moody's.

Custodial Credit Risk – Investments – is the risk that in the event of the failure of the counterparty, the Road Commission will not be able to recover the value of its investments that are in the possession of another party.

Interest Rate Risk – Investments - is the risk that the value of investments will decrease as a result of a rise in interest rates. The weighted average days to maturity of the Public Funds Investment is 12 days. The Road Commission's investment policy does not address interest rate risk.

Concentration of Credit Risk – Investments – is the risk of loss attributed to the magnitude of the Road Commission's investment in a single issuer. The Road Commission's investment policy does not address concentration of credit risk.

The investment trust has been reported in the financial statements as a cash equivalent because it has the general characteristics of demand deposit accounts in that the County Treasurer, on behalf of the Road Commission, may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 5 - DUE FROM OTHER GOVERNMENTAL UNITS:

Due from other government units as of September 30, 2007 consists of the following:

State –	
Motor Vehicle Highway Funds	\$ 1,321,724
Local –	
Township road agreements	<u>241,722</u>
	<u>\$ 1,563,446</u>

The governmental fund statements report deferred revenue in connection with receivables that are not considered to be available to liquidate liabilities of the current period. Both the government-wide and governmental fund statements defer revenue recognition in connection with resources that have been received, but not earned.

NOTE 6 - INVENTORIES:

The inventory balance of \$278,346 at September 30, 2007 consisted of \$144,551 of road materials and \$133,795 of equipment parts and materials.

NOTE 7 - CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Balance October 1, 2006	Additions	Deletions	Reclass. and Removals	Balance September 30, 2007
Capital Assets, not being depreciated –					
Land	\$ 243,002	\$ -	\$ -	\$ -	\$ 243,002
Land Improvements	15,215,448	1,277,554	-	4,318,850	20,811,852
Right of Ways	<u>758,941</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>758,941</u>
Total Capital Assets, not being depreciated	<u>16,217,391</u>	<u>1,277,554</u>	<u>-</u>	<u>4,318,850</u>	<u>21,813,795</u>
Capital Assets, being depreciated –					
Buildings and improvements	6,564,842	3,336	-	(110,430)	6,457,748
Road Equipment	5,458,214	196,383	361,444	44,022	5,337,175
Shop Equipment	101,566	-	-	(23,116)	78,450
Office Equipment	632,041	-	-	(332,733)	299,308
Engineering Equipment	237,533	8,812	-	(119,827)	126,518
Yard and Storage Equipment	263,637	-	-	248,145	511,782
Infrastructure -					
Roads	79,435,475	2,313,574	-	(4,489,623)	77,259,426
Bridges	17,418,210	2,079,419	-	(6,918)	19,490,711
Traffic signals	1,235,000	400,000	70,000	-	1,565,000
Depletable assets	<u>154,813</u>	<u>-</u>	<u>-</u>	<u>(104,254)</u>	<u>50,559</u>
	<u>\$111,501,331</u>	<u>\$ 5,001,524</u>	<u>\$ 431,444</u>	<u>\$(4,894,734)</u>	<u>\$111,176,677</u>

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 7 - CAPITAL ASSETS – (cont'd):

	Balance October 1, 2006	Additions	Deletions	Removals	Balance September 30, 2007
Less – accumulated depreciation for –					
Buildings and Improvements	\$ 1,857,154	\$ 87,243	\$ -	\$(841,001)	\$ 1,103,396
Road Equipment	4,877,615	244,306	240,549	(6,989)	4,874,383
Shop Equipment	90,461	566	-	(21,447)	69,580
Office Equipment	530,435	2,237	-	(325,769)	206,903
Engineering Equipment	232,616	1,834	-	(123,735)	110,715
Yard and Storage Equipment	189,509	29,005	-	239,015	457,529
Infrastructure –					
Roads	35,374,537	4,588,169	-	(2,277,871)	37,684,835
Bridges	5,332,197	373,670	-	360,610	6,066,477
Traffic Signals	515,836	104,333	70,000	19,831	570,000
Depletable Assets	154,813	-	-	(104,254)	50,559
	<u>\$ 49,155,173</u>	<u>\$ 5,431,363</u>	<u>\$ 310,549</u>	<u>\$(3,081,610)</u>	<u>\$ 51,194,377</u>
Total Capital Assets, being depreciated, net	<u>62,346,158</u>	<u>(429,839)</u>	<u>120,895</u>	<u>(1,813,124)</u>	<u>59,982,300</u>
Governmental activity capital assets, net	<u>\$ 78,563,549</u>	<u>\$ 847,715</u>	<u>\$ 120,895</u>	<u>\$ 2,505,726</u>	<u>\$ 81,796,095</u>

NOTE 8 - FEDERAL AWARDS:

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures are required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended September 30, 2007, the Road Commission of Eaton County had less than \$500,000 of force account expenditures applicable to federal awards (local force revenue). As a result, an audit for compliance under the Single Audit Act has not been performed.

The federal revenues of \$876,839 represents the Department of Transportation Federal Highway grant money expended on public road improvement projects which were administered by the Michigan Department of Transportation, however required to be reported by the Road Commission.

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 9 - LONG-TERM LIABILITIES:

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended September 30, 2007:

	Balance October 1, 2006	Additions	Reductions	Balance September 30, 2007	Due Within One Year
MTF Bonds – Series 1998	\$ 760,000	\$ -	\$ 370,000	\$ 390,000	\$ 390,000
MTF Bonds – Series 2003	5,230,000	-	105,000	5,125,000	105,000
Accrued sick leave & vacation	<u>302,322</u>	<u>136,551</u>	<u>133,546</u>	<u>305,327</u>	<u>-</u>
	<u>\$ 6,292,322</u>	<u>\$ 136,551</u>	<u>\$ 608,546</u>	<u>\$ 5,820,327</u>	<u>\$ 495,000</u>

Significant details regarding outstanding long-term liabilities are presented below:

MTF Bonds – Series 1998 –

The County of Eaton, Michigan issued \$5,610,000 of Michigan Transportation Fund Bonds, Series 1998, dated June 1, 1998 pursuant to the provision Act 51, Public Acts of Michigan of 1951, as amended. The bonds are issued in anticipation of and are payable from money derived from state collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction and construction work incidental thereto pursuant to Act 51.

The bonds are also a general obligation of the County of Eaton, which pledged its full faith and credit for the prompt and timely payment of the principal and interest of such bonds, in the event of insufficiency of said state returned taxes. The full faith and credit pledge of the County is a limited tax general obligation and the County is required to pay the debt service requirements on the bonds as a first budget obligation from its general funds, including the collections of any ad valorem taxes which the County is authorized to levy. However, the ability of the County to levy such taxes is subject to applicable charter, statutory and constitutional tax limitations.

Bonds or portions of bonds in multiples of \$5,000 of this issue maturing on August 1, 2008, shall be subject to redemption prior to maturity, at the option of the County, in such order as the County may determine and by lot within any maturity, on February 1, 2008, at par plus accrued interest to the date fixed for redemption.

Principal on the bonds is due on August 1, 2008 with interest due semi-annually on February 1 and August 1 at interest rates ranging from 4.00% to 4.15%.

MTF Bonds – Series 2003 –

The County of Eaton, Michigan issued \$5,500,000 of Michigan Transportation Fund Bonds, Series 2003, dated July 1, 2003 pursuant to the provision Act 51, Public Acts of Michigan of 1951, as amended. The bonds are issued in anticipation of the Michigan Transportation Fund payments to be received by the County, which are returned to the Road Commission from the Michigan Transportation Fund for the cost of constructing, improving, maintaining, and repairing certain road commission buildings.

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 9 - LONG-TERM LIABILITIES – (cont'd):

The bonds are also a general obligation of the County of Eaton, Michigan, which pledged its full faith and credit for the prompt and timely payment of the principal and interest of such bonds, in the event of insufficiency of said state returned taxes. The full faith and credit pledge of the County is a limited tax general obligation and from its general funds, including the collections of any ad valorem taxes which the County is authorized to levy. However, the ability of the County to levy such taxes is subject to applicable charter, statutory and constitutional tax limitations.

Bonds of this issue maturing in the years 2008 through 2013, inclusive, shall not be subjected to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 of this issue maturing in the years 2014 through 2018, inclusive shall be subject to redemption prior to maturity, at the option of the County, in such order as the County may determine and by lot within any maturity, on any interest payment date on or after August 1, 2013, at par plus accrued interest to the date fixed for redemption.

Principal on the bonds is due on August 1, 2008 through 2018 with interest due semi-annually on February 1 and August 1 at interest rates ranging from 2.5% to 4.0%.

The annual requirements to amortize long-term liability outstanding at September 30, 2007, except compensated absences are as follows:

	<u>MTF Bonds – Series 1998</u>		<u>MTF Bonds – Series 2003</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 390,000	\$ 16,185	\$ 105,000	\$ 176,181
2009	-	-	500,000	173,425
2010	-	-	500,000	159,675
2011	-	-	500,000	144,675
2012	-	-	500,000	128,425
2013-2017	-	-	2,500,000	383,250
2018	-	-	520,000	20,800
	<u>\$ 390,000</u>	<u>\$ 16,185</u>	<u>\$ 5,125,000</u>	<u>\$ 1,186,431</u>

Accrued Sick and Vacation

Employees are granted vacation and sick leave in varying amounts based on the Commission's administrative policy and contract with union employees. Vacation time is credited annually to each employee, but cannot be accumulated for more than one year. Employees are limited to (160 days) 1,280 hours of sick leave accumulation. Upon retirement or permanent disability the employment of the Road Commission, all union employees are paid 50 percent of their accumulated sick leave. Vacation is paid out at 100% at the end of each year. The dollar amount of these vested rights which has been accrued on the financial statements amounted to approximately \$305,327 at September 30, 2007.

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 10 - EMPLOYEE PENSION:

Active Plan Description –

The Eaton County Road Commission provides pension benefits for substantially all of its regular full-time employees through a defined contribution pension plan. The Eaton County Road Commission is the plan administrator, however the everyday administration and operations of the plan is through the American Funds Group. The Road Commission makes bi-weekly contributions to the plan.

The Road Commission contributes an amount to the plan equal to 12% of employees' compensation during the plan year, after completion of one year of service. Members do not contribute any annual compensation to this plan.

Eligibility for plan participation is as follows:

- Be at least eighteen (18) years of age
- Have at least one (1) year of service
- Truthfully complete all applications or questionnaires required for enrollment

The plan provides for the following retirement provision:

Normal Retirement – The plan has set the normal retirement date as the plan anniversary nearest the participant's 65th birthday.

Early Retirement – The plan allows early retirement within ten years of the normal retirement date at 100% benefits.

Late Retirement – The plan allows for late retirement with the consent of the Road Commission, but no later than age 75. Contributions continue until actual retirement.

Disability Retirement – The plan allows for disability retirement if a participant becomes totally and permanently disabled. The pension payments may be received immediately with the amount depending on the value of the Participant Account at the time of retirement.

Vesting in the plan is 100% upon entry.

Unless elected otherwise, payment of retirement benefits will begin no later than the end of the plan year during which the participant retires or terminates. Participants may make a written election to begin receiving benefits at a later date if a participant is not married. When benefit payments start, the normal annuity form would be an annuity for the participant's life. If married, the annuity form would be a "Joint and Survivor Annuity", unless another election is made. This annuity form provides both individuals with joint income for life. If the participant dies after beginning the annuity, the beneficiary will be entitled to 100% of the participants account balance up to the participants death, and 50% of such account balance as the "spouse's death benefit".

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 10 - EMPLOYEE PENSION – (cont'd):

Subject to the terms of the Plan and current law, a participant may elect to receive benefits in one of several alternate forms. These forms include:

1. Lump sum (cash)
2. An annuity for participant's life
3. A joint annuity for participant and designated beneficiary
4. Installment payments for a specified period which may not exceed participant life expectancy
5. Installment payments for a specific period not to exceed the life expectancy of the participant and designated beneficiary.

Payments may vary among the different settlement options, but all have equal value.

If a participant terminates employment with the Road Commission for any reason other than death, disability, or retirement, the participant will be entitled to receive the vested portion on various distribution schedules depending on the present value amount in the participant's account and personal election.

The Road Commission's contributions to the plan for the year ended September 30, 2007, are \$166,969.

The information required by the Governmental Accounting Standards Board Statement 5 concerning "accounting policies and plan asset matters" is not provided in the annual reports issued by the administrators.

Other Plan Description –

The Road Commission also has a defined contribution pension plan administered by Sun Life Assurance of Canada which was frozen in January, 1986. No contributions have been made to this plan since that date. The participant is entitled to a distribution only upon death, retirement or termination from the Road Commission. Since January, 1986, an interest amount of approximately 3% compounded annually has been added to the balance as per the plan agreement.

NOTE 11 - POST EMPLOYMENT BENEFITS:

In addition to the pension benefits described in Note 10, the Eaton County Road Commission provides post-employment health care to eligible employees who retire from the Road Commission on or after attaining retirement age (59-1/2) with at least ten years of continuous service. Expenditures for post-retirement health care benefits are recognized on a pay-as-you-go basis. For the year ended September 30, 2007 these costs amounted to approximately \$309,146 with 33 eligible participants.

EATON COUNTY ROAD COMMISSION
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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 12 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

In the normal course of its operations, the Eaton County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

NOTE 13 - RISK MANAGEMENT:

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop-loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also a member of the County Road Association Self Insurance Fund for workers' compensation insurance. The Fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The Fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the Fund.

The Road Commission continues to carry commercial insurance for employee health and accident insurance. The amount of settlements (claims) for the past three years have not exceeded insurance coverage.

NOTE 14 - FUND BALANCE - RESERVED/NET ASSETS - RESTRICTED:

A portion of the fund balance has been segregated for prepaid items in the amount of \$715,780 to indicate that prepaid items do not represent expendable, available financial resources.

A portion of the fund balance and net assets has been segregated for the amount of \$2,270,998, which is restricted by Michigan Public Act 51 in the amount of \$923,742 for Primary and in the amount of \$1,347,256 for Local Roads as determined by completion of the Michigan Department of Transportation's Act 51 Report required at the end of the Road Commission's fiscal year.

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE 15 - EQUIPMENT OPERATIONS EXPENDITURE/EXPENSE BALANCE:

The Road Commission in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental for 2006 is based on a rental rate per hour established by the Michigan Department of Transportation, multiplied by rental hours and is reported as an expenditure in the various construction, improvement and maintenance activities. An expenditure credit is reported as an offset against the equipment expenditure activities. Accordingly, the equipment rental does not affect total expenditures or the available operating equity of the Road Commission's General Operating Fund. The balance for the year ended September 30, 2007 is as follows:

	<u>Governmental Fund</u>	<u>Statement of Activities</u>
Equipment –		
Direct	\$ 595,809	\$ 351,503
Indirect	841,142	747,500
Operating	<u>248,650</u>	<u>248,650</u>
	1,685,601	1,347,653
Less-equipment rental	(<u>1,337,195</u>)	(<u>1,337,195</u>)
	<u>\$ 348,406</u>	<u>\$ 10,458</u>

NOTE 16 - CAPITAL OUTLAY EXPENDITURE CREDIT BALANCE:

On the governmental fund financial statements, the Road Commission reports a depreciation credit as an offset to capital outlay as a result of charging depreciation to various expenditure accounts as explained in Note 1. Retirements are also reported as a credit against capital outlay. The credit balance of \$227,555 is the result of the amount of depreciation and retirements exceeding capital outlay expenditures for the year ended September 30, 2007 as follows:

Capital Outlay -	
Land improvements, building	
and equipment	\$ 208,531
Less - depreciation/depletion	(365,191)
- retirements	(<u>120,895</u>)
	<u>\$ (277,555)</u>

NOTE 17 - PRIOR PERIOD ADJUSTMENT:

For the year ended September 30, 2007, the Road Commission implemented new software for maintaining capital assets for infrastructure. As a result, it was noted that accumulated depreciation was overstated, the correction resulted in an increase in the net value of capital assets of \$2,505,726.

SUPPLEMENTARY INFORMATION

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

DETAILED SCHEDULE OF REVENUES
GENERAL OPERATING FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Revenues:		
Licenses and permits	\$ 67,268	\$ 98,410
Federal Sources -		
D Funds	57,958	481,049
Surface Transportation Program (STP)	599,444	1,547,724
Congestion/Air Quality	185,990	-
Hazard Elimination	33,447	156,006
	<u>876,839</u>	<u>2,184,779</u>
State Sources -		
Motor Vehicle Highway Funds - Act 51 -		
Engineering	10,000	10,000
Primary roads	4,513,727	4,632,367
Local roads	2,163,674	2,159,781
Primary urban roads	825,878	829,041
Local urban roads	229,398	227,216
Economic Development Fund Category D	54,508	265,336
TED Category A	1,600,935	1,826,265
State critical bridge	1,650,979	-
	<u>11,049,099</u>	<u>9,950,006</u>
Local Sources -		
City and Village contributions	31,674	22,955
Township contributions	1,528,846	1,141,526
County appropriations	85,957	107,344
Other contributions	-	224,282
	<u>1,646,477</u>	<u>1,496,107</u>
Interest and rents	<u>172,591</u>	<u>103,615</u>
Other -		
Gain (loss) on equipment disposal	63,178	12,188
Sundry refunds	115,058	29,851
Private contributions- subdivisions	226,530	322,500
Special assessment	33,782	41,546
	<u>438,548</u>	<u>406,085</u>
Total Revenues	<u><u>\$ 14,250,822</u></u>	<u><u>\$ 14,239,002</u></u>

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

DETAILED SCHEDULE OF EXPENDITURES
GENERAL OPERATING FUND
FOR THE YEARS ENDED SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Expenditures:		
Construction/ Capacity Improvements -		
Primary roads and structures	\$ 3,030,584	\$ 3,334,138
Local roads and structures	225,000	322,500
	<u>3,255,584</u>	<u>3,656,638</u>
 Preservation- Structural Improvements		
Primary roads and structures	2,444,262	1,738,787
Local roads and structures	370,701	511,249
	<u>2,814,963</u>	<u>2,250,036</u>
 Routine and Preventive Maintenance -		
Primary roads and structures,		
winter maintenance and traffic control	2,762,935	2,704,182
Local roads and structures,		
winter maintenance and traffic control	2,399,758	2,535,479
	<u>5,162,693</u>	<u>5,239,661</u>
 Equipment -		
Direct	595,809	590,429
Indirect	841,142	885,477
Operating	248,650	232,391
Less - equipment rental	(1,337,195)	(1,161,472)
	<u>348,406</u>	<u>546,825</u>
 Administrative -		
Administration	781,243	873,069
Less - handling charges	(114,541)	(117,767)
	<u>666,702</u>	<u>755,302</u>
 Other	<u>413,471</u>	<u>415,957</u>
 Capital Outlay -		
Land improvements, building		
and equipment	208,531	309,925
Less - depreciation	(365,191)	(527,354)
- retirements	(120,895)	(150,823)
	<u>(277,555)</u>	<u>(368,252)</u>
 Debt Service -		
Principal retirement	475,000	455,000
Interest and fiscal charges	210,686	227,311
	<u>685,686</u>	<u>682,311</u>
 Total Expenditures	<u><u>\$ 13,069,950</u></u>	<u><u>\$ 13,178,478</u></u>

EATON COUNTY ROAD COMMISSION
A Component Unit of Eaton County, Michigan

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BY FUND BALANCE SUB-ACCOUNTS GENERAL OPERATING FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Primary Road	Local Road	County Road	Total
Revenues:				
Licenses and permits	\$ -	\$ -	\$ 67,268	\$ 67,268
Intergovernmental -				
Federal Sources	876,839	-	-	876,839
State Sources	8,652,528	2,396,571	-	11,049,099
Local Sources	941,309	619,211	85,957	1,646,477
Interest and rent	1,681	66,306	104,604	172,591
Other	1,530	225,000	212,018	438,548
Total Revenues	<u>10,473,887</u>	<u>3,307,088</u>	<u>469,847</u>	<u>14,250,822</u>
Expenditures:				
Current -				
Construction/ Capacity Improvements	3,030,584	225,000	-	3,255,584
Preservation- Structural Improvements	2,444,262	370,701	-	2,814,963
Routine and Preventive Maintenance	2,762,935	2,399,758	-	5,162,693
Administrative	488,919	177,783	-	666,702
Equipment - net	160,441	187,965	-	348,406
Other	-	-	413,471	413,471
Capital outlay - net	-	-	(277,555)	(277,555)
Debt Service -				
Principal retirement	475,000	-	-	475,000
Interest and fiscal charges	210,686	-	-	210,686
Total Expenditures	<u>9,572,827</u>	<u>3,361,207</u>	<u>135,916</u>	<u>13,069,950</u>
Excess of revenues under expenditures	901,060	(54,119)	333,931	1,180,872
Fund Balance at October 1, 2006	22,683	1,401,374	2,297,738	3,721,795
Interfund Adjustment	<u>(1)</u>	<u>1</u>	<u>-</u>	<u>-</u>
Fund Balance at September 30, 2007	<u><u>\$ 923,742</u></u>	<u><u>\$ 1,347,256</u></u>	<u><u>\$ 2,631,669</u></u>	<u><u>\$ 4,902,667</u></u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Board of County Road
Commissioners of Eaton County
Eaton, Michigan

We have audited the financial statements of Eaton County Road Commission as of and for the year ended September 30, 2007, and have issued our report thereon, dated December 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Eaton County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Eaton County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Eaton County Road Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Eaton County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Eaton County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Eaton County Road Commission's internal control. We consider the deficiency described as follows to be a significant deficiency in internal control over financial reporting:

Statement on Auditing Standards No. 112 "Communicating Internal Control Related Matters Identified in an Audit" specifies that the Road Commission is responsible for internal control over financial reporting. This financial reporting includes the financial statements including the notes being presented in accordance with Generally Accepted Accounting Principles.

The Road Commission prepares various financial information to assess operations and the financial condition of the Road Commission including the completion of the MDOT ACT 51 Report at year end. However, that information is not required to be a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Road Commission relies on our firm to assist in reporting the annual financial report in accordance with Generally Accepted Accounting Principles.

The Road Commission has individuals on staff to review and determine that the financial report is accurate, however, has not reviewed and determined that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Road Commission is considered to have a significant control deficiency, since reporting errors or omissions could occur in the presentation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Road Commission may not detect the errors or omissions.

We recommend that the Road Commission consider reviewing the annual financial report for compliance with Generally Accepted Accounting Principles. However, with the implementation of any internal control procedure, efficiency and cost must be evaluated along with risk.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Eaton County Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eaton County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Eaton County Road Commission in a separate letter dated December 21, 2007.

This report is intended for the information and use of the management and Board of County Road Commissioners of Eaton County, Michigan and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

December 21, 2007